Jerry Gooch

12/10/12

Moore

Research Paper

The Corporate Tax Conundrum

Corporate Tax in America is a system that stifles the innovative forces (corporations) that are trying to create “the next big thing”. Corporate tax is placed upon companies charging them up to $5,150,000, plus up to thirty eight percent over any amount earned over fifteen million dollars in revenue. This isn’t fair to the companies and their owners who have built something from nothing. The corporate tax in America needs to be taken out - taking corporations hard earned money deters innovation - no company wants to reinvest when there is little profit to be made (killing job growth). There are better tax systems such as consumption tax, which could easily replace the current system while generating plenty of revenue for the U.S. government.

The corporate tax in America prevents innovation. As corporations earn money, they will reinvest and grow their company. One aspect of growing a company comes from new product development. In fact David Cobbs states, “Studies show that companies that invest in research and development (R&D) grow and prosper in increasingly competitive markets…” (Cobbs, 14). While Cobbs is referring to a tax credit for R&D, the same ideology can be applied to the reduction of the corporate tax rate to help stimulate growth. To reinvest themselves, industries forward these new products, generating new revenue streams, furthering the growth of the company.

Once his revenue is earned, the corporate tax is acquired. Taking away millions of dollars of money that could be used to generate new products. This hurts the government and the economy.

The general belief by the opposition is that corporations are greedy and only in the business to make a profit. This, however, cannot be true: Most CEOs would not attempt to keep mils for his or her own benefit when the comp in question has the opportunity to grow, thereby increasing its profit margin.

A corporation being taxed heavily will be unwilling to spend any more than necessary to perform. In result, the government will suffer from the lack of growing businesses, inhibiting tax income from growing to support itself. As new services are implemented, the government is thrust into more debt. Businesses that are not innovating, and growing are not stimulate the economy.

The more a company is taxed, the Less likely the comp is to grow and increase its employee base. If the federal government take away thirty eight percent of what a company makes, leaving sixty two percent of the revenue. By taking out the current employee base costing the business twenty to thirty percent of its profit, then factoring in overhead costs and supplies (ten percent), there isn’t a whole lot left for a business to reinvest to grow its profits for the next year. With that knowledge businesses would not invest in employee’s when the company is making a meager profit.

When decent profits aren’t being made due to taxes, businesses move to other countries, then taking with them jobs and all that potential tax revenue that could have been earned. This is another downfall of the corporate tax that pains the economy. The United States government does not receive all potential tax revenue, due to competition from another country... China sets an excellent example with their low corporate tax rates, they are able to steal business away from countries with higher rates such as the United States.

There are solutions to the problems the corporate tax system brings. A simple option would be to simply lower taxes to a lower level. Another option is to remove the tax all together and move to a consumption based tax, also known as the “fair tax” in the private sector.

The idea of lowering the corporate tax is enticing to businesses. Lowering the corporate tax would increase business growth, as well as attract international businesses. Bringing in international businesses would generate even more revenue for the federal government. According to Jensen and Lindstädt, governments lower corporate taxes based on precedents set by other countries. (303) If there is one thing the government should learn it’s that higher corporate taxes harm business and more business in America would bring more tax revenue in.

Opponents in congress, however, would attempt to kill the issue... The current congress (known by some as a “lame congress”) would argue the consumption tax into the ground. It has been proven over and Tax and budgeting has been proven several times over to be a weak point for bipartisanship. Barrack Obama, even has pushed for increased taxes on corporations. As of now America has one of the highest corporate taxes in the world. While lowing the corporate tax is a viable solution, it is not the most effective option.

The Consumption tax is the ideal something else: a tax based on what is spent, versus what is made... It is a tax based on what is spent and not what is made. Essentially, buying the ingredients for said product would be taxed; corporate tax, however, would not be involved. However, this would generate a large amount of revenue for the government and still be less on the business.

Under this principle, a corporation could buy a private jet without the hassle of added income taxes to the company; the jet itself would be taxed upon purchase. Assuming the consumption tax is ten percent then that twenty million dollar jet just earned the federal government two million dollars in tax revenue because, the corporation wanted and thus purchased the jet, the tax fair. The federal government didn’t have to take any money from them. It was a willing transaction that the government profited on. The same concept can be applied to purchased goods and materials required to keep the business operating.

Getting rid of the tax system is the ideal option, but the hardest to implement. Reconstructing the whole tax system could be potentially devastating if applied carelessly. However, if done correctly this restructure could be the best change in business taxes in American history. Though, effectively stimulating job growth, economic growth, and government growth in a reasonable way. The amount of opposition from both the left and the right would make this a fairly difficult battle to win.

Opponents from the left side of the political spectrum believe that the corporate tax is “fair”, and that businesses should pay their “fair” share. They feel that these corporations should pay more so that the federal government can provide more programs and services. The issue with this ideology is the fact that the corporate tax is essentially taking away from the hard work invested by business owners and even employees. They also feel that the consumption tax has the potential to be regressive (Athreya and Reilly, 98). The opponents to lowering the tax, or switching to a consumption based tax, want to redistribute the wealth of the nation from these corporations to the lower classes so that they can become wealthier.

The opponents on the right think otherwise. They do not necessarily think the consumption tax is flawed, so much that the battle with the left is too heavy a burden to bear. Because the current congress hinders the possibility of change. The right wing does not want to give, bipartisanship therefore is nonexistent.

Though not in light of the left’s perception of Mitt Romney’s comment, corporations are, in fact, people – a collective of people. They act as one, allowing the corporation to make important decisions. By taking money away from the corporation one takes away from all the hard working employees as well as the investors expecting a profit

The corporate tax problem cannot be fixed overnight. Voicing the problems that exist within the current American system is the first step in attracting the attention needed to making real change. There are many opponents to this change however at the current rate, businesses are not growing and tax revenue is shrinking, and causing government expenditure is growing. Businesses are leaving the country to find countries with lower tax rates, reducing American jobs. Switching to the consumption tax would generate more revenue, as creating a fair and reasonable tax for corporations. Though people do not enjoy taxation, the money is used to purchase goods and services, generating rev w/out explicitly taking money from businesses. However, taxing money that is used to purchase goods and services is one way to generate revenue without explicitly taking money from these businesses. Typically if businesses are doing well the rest of the country is doing well, and if everyone else is doing the country as a whole is also doing well. Thus, the government is receiving the necessary taxes need to keep its programs and services running efficiently

Work Cited

Athreya, Kartik B., and Devin Reilly. “Consumption Smoothing and the Measured Regressivity of Consumption Taxes.“ *Economic Quarterly* (10697225) 95.1 (2009): 75-100. Academic Search Premier. Web. 11 Dec. 2012.

Cobb, David, and Jonathan Gates. “incentives for Innovation.” *Engineering Management* 14.3 (2004): 14-17. Academic Search Premier. Web. 11 Dec. 2012.

Jensen, Nathan M., and Rene Lindstadt. “Leaning Right and Learning from the Left: Diffusion of Corporate Tax Policy across Borders.” *Comparative Political Studies* 45.3 (2012): 283-311. Academic Search Premier. Web. 11 Dec. 2012.

GoochyMan!

Making notes as I go…

Spell out percentages and contractions

Don't say things like “all that…”

A lot of your stuff just sounds like speculation. State these things as fact. This is like this, because of this. By doing this, this will be the result. Etc.